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Inventory Valuations and Hedging

By LUCIEN FAVREAU, C.P.A.

Professor of Accountancy, Ecole des Hautes Etudes Commerciales de Montreal

(Before Montreal Chapter, January 26, 1934.)

THE subject of my paper is purely theoretical. My mission as a professor is to shape the accountants of to-morrow and train them to think in a business and industrial way. Your work is to face and solve accounting problems in a practical way.

You are, or at least you were, quite familiar with the theory of accounting, just as you have been with the rules of grammar. How many can say that they do not overlook one of them now and then in the daily routine? It occurred to me that this is an opportune time to "brush up a bit" on the theory of inventories.

Many of the multiple and varied developments of accounting in late years are the result of peculiar circumstances and temporary necessities. A casual study of some opinions, later turned into stereotyped precepts, reveals many weaknesses. Their remoteness from fundamental principles is manifest, and they are sometimes dangerous if applied generally.

The title I have given to my talk is perhaps misleading. I do not intend to go into the minute details of hedging. I simply want to discuss its relation to accounting and to inventory valuations. As you know, there are very few instances given in treatises or elsewhere of the accounting point of view regarding hedging transactions. On the other hand, it is generally admitted, I believe, that future markets are a means by which manufacturers and traders are enabled to protect their enterprises against loss pertaining to fluctuations in price during the period in which they are handling certain commodities or raw materials. Accountants have established rules under which inventories should be stated in Profit and Loss statements and balance sheets, but they very seldom refer to the practice of hedging as a means of stabilizing revenues. I do not wish to criticize the actual state of things, I simply want to gather as much theory or facts as I can on the subject, in order to stimulate the discussion which generally follows at your meetings. Although I may be wrong, my conviction is that the question of inventory valuations is one of practical importance.

However, let us step boldly into this realm of theory and see what we shall find. After a brief statement in which I shall refer to the different rules on inventory valuations which prevail, I shall endeavour to show their contradictions and the confusion to which they lead.

Methods of Valuing Inventory

Before considering the methods in use, in the United States and in Canada, I might rightly refer to those which seem to prevail in Europe. I am quoting Fuzet.

The question of inventory valuations has been thoroughly discussed. Only two methods seem to survive. The old theory was that

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the valuation of inventories should be made at market; the application of the method, no matter the accounting method employed, results in an additional profit when the market price exceeds the cost price. That profit will be realized only when the goods are sold; if a drop in price occurs, the business will have to sustain a loss which would eventually absorb, if not exceed, the apparent profit resulting from the previous arbitrary valuations, and if that fictitious profit has already been distributed, the existence of the business itself may be threatened. One must remember on the other hand that if the market price is easily obtained when the goods in question are transacted on a well organized market, which publishes quotations, it is very difficult to arrive at an accurate figure when there is no market where regular transactions are made.

The method which tends to be generally adopted is the valuation at cost price which comprises the amount of money disbursed to obtain the goods where they are, that is to say, the invoice price plus freight, duty, cartage, etc., which excludes selling expenses. The fiscal valuations of inventories adopt that method, because it seems to be the most logical one.

It is possible that at the inventory period the value of certain parts of the inventory has fallen below the cost price, but even then the amount of money which the drop represents should not be absorbed by the current profit and loss statement. On the other hand, if there is a probability of a serious loss through resale, nothing prevents the administration from applying part of the profit realized to the accumulation of a "Reserve for price fluctuations."

Nothing prevents the administration also from making a second estimate of the inventory at the market price, but the figures obtained should not interfere with the results of a period. Accounting should only record facts; under no circumstances, should it be allowed to record possibilities or hypotheses.

The American Viewpoint

The above is the most precise of all the rules on inventory valuations. May I now refer to the American points of view.

In the United States and also in Canada, the old rule which is stated as "Cost or market whichever is lower" represents a good accounting practice. It has prevailed for a long time. In recent years, however, it has been somewhat discarded. It is now sometimes contended that there are circumstances where accounting practice should adopt a different method of inventory valuations. Some accountants say that the mere statement of assets at cost is no indication of their present value; and that on the other hand, the terms "cost" or "market" are nothing but uniformly defined. The term "cost" seems to be rather vague to some people who claim that it is often difficult to determine cost, more so when some factors are not known or when different purchases are made at different prices, or when the price itself fluctuates frequently. Under certain circumstances, it is also claimed that it is almost impossible to compute accurate cost, especially when a good accounting system is not in existence. On the other hand the fact remains that the use or abuse of the market value have also created some confusion; so much so that the United States' Treasury has had to give its own restrictive definition which reads as follows: "under ordinary circumstances, market means the current bid price prevailing at the date of the inventory in the particular merchandises in the volume in which ordinarily purchased by the tax payer. I should like you to note the restriction regarding volume.

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Apart from the rule of "cost or market whichever is lower," there are the following additional rules which are admitted by the accounting profession.

It is claimed: (1) that it is sometimes proper to value an inventory at less than either cost or market; (2) that it is sometimes proper to value at reproduction cost if that is higher than replacement cost; (3) that it is sometimes proper to value at market if market is higher than cost.

Some businesses have frequently on hand large stocks which are not worth cost or even market price; production cost of new companies is sometimes overstated. In both cases, the prevailing opinion admits that cost should be reduced to the actual value.

Manufacturers of non-competitive products sometimes value their finished goods at cost even though the replacement cost is lower than actual cost. As in most instances, replacement cost is synonymous with market price, the majority of accountants are inclined to condemn the method when replacement cost is less than the actual or original cost, they claim that inventories should be reduced to replacement cost, and on a declining market, they should be valued at market or replacement price or less.

The most confusing method is the third. Some accountants claim that although one should be conservative, at the same time, a balance sheet should disclose favorable changes in market values, and that it is sometimes proper to value inventories at market even if it is higher than cost, providing trustworthy market quotations can be obtained. Some professional accountants, however, concur in the definition of the United States' Treasury that if the quantities are excessive, the fact should be disclosed. There is some hesitation as to increasing the value of the inventory, increasing thereby the earnings of a period at the expense of others; but the practice is partly it not wholly admitted.

Before the war, the only method tolerated was "cost or market whichever is lower." But, before the war, conditions were different; I may say that the administration of capital was more conservative.

Now, gentlemen, is there not some confusion in all this, due, for the most part, to the fact that market price is sometimes resorted to.

When we talk of cost or market, we should, as accountants, have a clear notion of those terms, leaving aside their economic sense. Let me suggest a short, clear, definition of each of those terms before going any further:

"Cost" means to the accounting profession the monetary expression of a quantity of goods at the time of purchase.

"Market value" means the present monetary expression of a quantity of goods previously bought or acquired or manufactured.

Now, why should accountants hesitate to choose according to circumstances? Why should not cost be adopted in all cases in the determination of the result of a period?

The method of valuing inventories at market has recently gained more favor but, some day or other, business men will have to come back to the logical way of transacting and recording business, doing away with all uncertain and imprecise data which have been the characteristic of the last quarter of a century. They should revert to the old accounting practice and keep records of the cost price as exactly as possible, leaving aside fluctuations in price in the determination of annual results.

May I be allowed in concluding this part of my talk to quote Lawrence R. Dicksee on that subject. Dicksee, in the 1916 edition

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of his book on Advanced Accounting, under the heading of "Capital and Revenue" in respect of the appreciation of assets, says: "that under no circumstances should appreciation in the value of fixed assets be credited to revenue while appreciation in the value of floating assets should under normal circumstances not be taken credit for until actual realization. The proper basis may be taken to be the cost price. Certain assets, however by their nature, regularly and constantly increase in value in exactly the same way (and for the same reasons) that most assets decrease in value. This is true for instance of Reversions: that is to say, assets which represent the holder's title to receive a sum of money at some fixed or determinable future date. As the future date approaches, the present value of the reversion naturally increases. Life Insurance policies may, for this purpose, be treated as reversions.

"The same rule applies to leased property; when the asset represents freehold or leasehold property, to the vacant possession of which the owner will be entitled at the expiration of an existing tenancy under which he receives a rent less than the true annual value of the property." The annual appreciation in value is income as much as the rent that is actually received."

The author, who is one of the most eminent accountants in England, is very precise on the subject of valuations.

All methods of valuation of inventories other than cost are confusing, they are lacking in preciseness which is the chief characteristic of good accounting. A good accountant should be able to pride himself on this point at all times.

The price of raw materials, food stuffs, and goods which are quoted on organized markets, fluctuates from day to day. No accountant could attempt however, to register those daily fluctuations. On the other hand the number of those markets will increase if the distribution of goods is to be maintained on a properly determined basis, and manufacturers and traders will have to resort to them in order to stabilize their revenues and to protect the value of their inventories. Markets for commodities, food stuffs, raw materials, etc., have been created for the protection of enterprises and not for their destruction through speculation.

The most important department of organized markets is future trading of which so many persons have thought more evil than good.

Unfortunately, too many people ignore their functions and are wrongly informed about them.

What then are future markets? I may say right now that they are an economic necessity of our time. They certainly have helped a great deal in organizing the distribution of goods throughout the world, through their hedging possibilities. Without organized markets and hedging, I dare say that foreign trade would not have progressed as it has progressed during the last century or so.

Definition of Hedging

My definition of hedging is as follows: A sale of raw materials, food stuffs, etc., for future delivery simultaneously made with a purchase for cash of about the same quantity of the same raw materials, food stuffs, etc., which are disposed of on regularly organized markets. I may add without fear of contradiction that these transactions are made in most cases not with the intention of speculating, but on the contrary, with the intention of evading the effects of speculation. This point is very important.

Who are the persons or firms that are interested in that kind of transactions? Manufacturers, traders, merchants, warehouse pro-

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prietors, exporters, etc. Every person or firm who is interested in the home or foreign distribution of goods, and those revenues depend on the proper distribution of the goods they are handling. Their enterprises must be supplied with some kind of protection against the risk pertaining to price fluctuations during the time they are handling those goods.

In order to secure that protection, they resort to hedging.

If a manufacturer buys raw materials for cash, he sells, the same quantity for future delivery at about the same price. When that manufacturer sells his finished products, he buys back on the same future market the quantity of raw materials he had sold before for future delivery. What he loses on the one transaction, he gains on the other, and the regular or moderate profit or commission on his business is assured to him as a just remuneration for his services to the community.

I venture to say that I see no harm in dealings of that kind. I may go further and say that without the possibility of hedging their transactions, most traders on certain goods or commodities would cease to exist.

The Second Party in the Contract

Who are the counter-parts in hedging? Most of the time they are other manufacturers, traders, warehouse proprietors, etc., who are in the process of opening or closing transactions of their own. There are, of course, other persons, merely speculators, who operate on future markets. I admit that there are a great many persons who are not genuinely interested in the distribution of raw materials, food stuffs, etc. Those persons are really speculating while the others are trying to evade the effects of speculation. Whether the blame should be put on the mere speculators or on the organized markets themselves, is a question to which I do not have to answer just now. I surely am not inclined to blame the manufacturer or the trader who is trying to keep his business on a right standard by following the regular course of hedging transactions. I might say also that instead of working at the destruction of the future markets, sensible people should try to improve their organizations.

Every one in Canada remembers the efforts and interference of the wheat pools in respect of the control of prices on the Winnipeg Exchange. They have done more harm than good to that timely organization whose functions were devised so as to help the distribution of Canada's wheat. The wheat pools have made more speculative transactions than protective transactions. A great part of the clientele, a few years ago, had gone elsewhere, and the Government in Ottawa, in order to get it back, made costly monetary sacrifices, which were necessary to reorganize on a proper basis the distribution of this staple article of our export trade.

May I now be permitted to add a few words about the economic sense of futures. Future markets are to my mind a necessity, a modern device of protection against price fluctuations. It is true that some persons use them with a speculative intention. I do not have to deal with that aspect of the question; like all delicate mechanisms, it should only be handled by those who realize their proper functions. Instead of condemning those markets, one should try to make their usefulness known. I think that the professional accountants in particular are those who can help a great deal in that direction.

Examples from Leading Industries

I shall try now to make a very rapid survey of the different kinds of industries in existence and show that most industries could

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make use of future markets as a protection. Of course, there are some for which hedging is not possible because future markets do not exist in the case of raw materials which they use. Here are the industries as they are grouped by the most important Stock Exchanges: The Automobile industry, which includes automobiles, trucks and accessories; the Chemical industry, heavy and light, which includes fertilizers, glass, drugs and cosmetics; the Building industry, covering building materials and construction; the Electrical equipment industry, heavy and light; the Food industry, with its varieties of meats, fish, milk, flour and sugar, coffee and cocoa; the Railroad industry; the ship building industry; the Amusement industry, subdivided into radio, motion pictures and theatres; the Mining industry excluding iron, but including coal, copper and non cuprous metals; the Petroleum industry; the Paper and Publishing industry, the steel, iron, iron mining and coke industry which is almost invariably the most important of all industries; the Textile industry, including silk, cotton and wool, a most important industry; the Leather and Boot manufacturing; the Tobacco industry; the Rubber tire and goods and other products of rubber.

All industries in existence belong to one or more of the above groups.

Now looking over the different groups, we see that a great number use steel and iron. Some of them are almost entirely dependent on the production of iron and steel. This is true of the automobile industry, the building industry, the farm implements industry, the machinery and metal industry, the railroad and the ship building enterprises.

The organization of the main industry is such that raw materials can be handled in any quantity at any time. In fact, most nations possess their own steel and iron industries, so that distribution is relatively perfect. There is no need for the consuming industries of such raw materials to accumulate stocks of great magnitude. To do so would be, as I said before, mere speculation and our task tonight is to try to show how it is possible to evade the effects of speculation.

The next more important groups are copper, coal and non cuprous industries, automobile, building, electrical equipment, machinery and metal, ship building, etc. The main industry and the dependent groups have, as you are aware, well organized future markets to which they can resort to protect the value of their inventories of raw materials and their revenues. There are, as you know, well organized future markets on copper, zinc, lead, tin, etc. The markets are situated at strategic points so that all those who have to use them may safely avail themselves of their services. The next important group is the food industry which uses wheat, sugar, coffee, etc. The raw products, such as wheat and other cereals, sugar, coffee can be transacted at any time and for any quantity on future markets whose organization is also almost perfect. Manufacturers, traders, etc., have the entire privilege of their use to protect their inventories of raw materials and finished products and also to regulate their revenue.

Another important group is the textile industry using silk, cotton and wool. Every person or firm interested in the distribution of the raw materials or the finished products of that group has not the slightest reason for risking its capital by neglecting to hedge its operations. With the grain exchanges, the future markets on cotton, wool and raw silk are the best organized future markets that exist.

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They are also available at strategic points. It is true that they have been the object of disastrous abuses; that does not prevent them from being of great service to the economic life of the world.

The leather and boot industry can also resort to hedging transactions on very well organized future markets on raw hides, etc., so that in its case also there is no need to accumulate inventories exceeding the regular needs of fabrication. The rubber goods and tire industry has also well organized future markets situated at strategic points to which it can resort in case of need.

Other Industries

In our classification of industries, those that do not yet have the privilege of using future markets to protect their operations are of recent creation. If those industries prove to be of a permanent nature, there is every reason to believe that in due course, future markets will be organized to enable them to stabilize their revenues through hedging. This is true, for instance, of the tobacco industry, of the paper and publishing industries, the petroleum industry and the heavy chemical industry.

I do not wish, gentlemen, to go into more details. The subject is rather too vast for such a short talk, but I do wish to emphasize the fact that manufacturers, in the majority of cases, are enabled to use future markets in order that they may stabilize their revenues and protect their profits. The normal turnover is known to all entrepreneurs and they should only buy just the quantities needed for its maintenance or to its normal increase. The manufacturer who does not care to hedge his purchases when it is possible for him to do so is a mere speculator. If he buys more than his normal turnover, when future markets are not available for the protection of his trade he speculates on the raw materials he uses in his operations. The accumulation of inventories in a favorable period is also of a speculative nature. It is a well known fact that during the past 25 years, too many manufacturers have ignored the principle of sound business in order to indulge in that sort of speculation. Big business has replaced sound business all too often.

The last fifteen years have brought about a complete change in administrative, financial, as well as accounting concepts. Speculation seems to have become the objective of the majority of business men of to-day, so that it is now necessary to remind the business community of the difference that exists between what we may call savings capital and speculation capital.

Before the war, capital invested in businesses came from accumulated savings. Most enterprises were created with savings capital. Bank credit only came afterwards to facilitate the transacting of regular business; it did not intervene in the creation of enterprises. The manufacturers and the traders were more careful and had a better sense of their own responsibilities; they were tempered by caution and they would seldom risk their capital. Progress was slow, but it was sure. Business in general was based on acquired wealth which was real wealth. The new conception of business has had an enormous success, since the war. It is based on credit, that is, debts. The lenders of the capital themselves are most of the time expecting disproportionate profits which are earned only through speculation; they are looking for quick turnover and rapid gain. Those lenders are that mass of people from whom capital is secured to the borrowing enterprises through the intermediary of financial institutions. And so the gain is no more tempered by caution which heretofore resulted from the fact that the head of an enterprise was risking his

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own funds. Nowadays, funds belonging to others can be secured in any amount, and the consequence is that the heads of enterprises take more risks because the funds are not theirs.

Enterprises are no longer created to satisfy a need of the community, but to encourage speculation. Business men build up plants or cities, because they think that progress will give them an enormous amount of wealth or just because they want to get rich through speculation. That state of things brought the actual agitation which is entirely artificial. Money benefits no more the community at large; it serves rather speculative purposes.

To a certain extent, the accounting profession has followed the same trend and I think that the time is ripe for it to revise its doctrines, especially on valuations of all kinds. But we shall confine our remarks to inventory valuations.

Manipulation of Inventory Values

There is every reason to believe that the manipulation of inventory values is under all circumstances to be condemned. Business men of to-day may not realize that to go on in that direction, which I have no hesitation in calling the wrong direction, means more harm than good to business itself. The actual state of things in all departments of economic life is the proof of a wrongful exaggeration which has contributed to make of the business mind a speculative mind whereas is used to be the most conservative mind. Among all the reasons indicated for that state of things, I clearly see the one which is related to money, the relative ignorance of a great many business men of to-day on monetary questions. Business men were a great asset to the economic life of the past century or so. Their present attitude and changing concepts is a real danger to the economic structure and it is now the time for them to begin to think again in more moderate terms. The standard of living of the whole nation is at stake. The accounting profession can cooperate so that business in general may come back to a better understanding of actual facts of the situation.

It is of the utmost importance for accountants and business men to be able to detect the reasons why prices are constantly fluctuating. Whether the fluctuations are due to production or to the amount of money which circulates, as we have seen in the case of hedging transactions, there are no reasons whatever, that should induce business men to accumulate larger inventories than they need because future markets can help them in both instances. Accountants and business men should in a masterly manner be familiar with those monetary questions which are haunting the minds of most people, to-day; they should be aware of the effects which money produces on prices, so as to be in a position to give advice on the proper attitude to be taken under all circumstances.

I have seen, and I suppose you have also seen, business disasters occur simply because purchases were made without any consideration of future events. I dare say that instead of buying more than usual in a period of rising prices, one should buy less.

The Accountant's Position

I have no specific recommendation to make in concluding this lecture, except that the accounting profession should be prepared to give advice on the questions which I have put before you. A professional accountant should see that hedging should be resorted to when such transactions can possibly be made on regularly organized markets; he should also see that regular and normal stock turnover

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should not be exceeded; finally, he should be aware of the monetary situation so as to be able to point out to his clientele the effects of a period of inflation both on money and credit.

By so doing, exaggerations shall be avoided and stability in business shall come back, and the old accounting principles shall still prevail.

I do not wish to prophesy, but I see very clearly that unless we, on this side of the Atlantic, do not start now to put our house in order, we shall have to suffer much more than most business men think. We cannot expect to go very far with this speculation mania. A time will come when not only economic effects will be felt but also social effects. All men of good will should get together and co-operate. Accountants are well prepared for that action and my advice to them is that they should start right now and try their best to render to the community such services as it expects from them.

Accounting System for a Bakery

By J. E. BROWER, C.A. (Ontario, 1933)

(This essay and that of Lawrence G. Macpherson tied for first place in the 1933 Prize Essay Competition of the Dominion Association of Chartered Accountants. Reprinted from the Canadian Chartered Accountant.)

Note: The following assumptions are made,—

1. That it is not necessary to present the discussion in the manner of a formal report;
2. That the bakery is of the average type, i.e., one which operates a central manufacturing plant, supplying route customers through delivery depots, one of which is located at the main plant, transfers of goods being made to the outside depots nightly by transport trucks;
3. That the bakery also sells to stores and institutions and does some shipping business, chiefly in the summer to vacation points;
4. That two departments are operated, one for bread and rolls and similar goods, and one for cake and special orders;
5. That, while route deliveries are made by horse-drawn vehicles, one or more light delivery trucks are kept at the central plant for special orders and for quick delivery to depots or route drivers in case of shortage in stocks;
6. That all repair departments are located at the main plant;
7. That the system outlined is to provide for monthly reports but is not to provide for a too detailed cost system, and that it can be modified to suit special requirements of the bakery;
8. That sales are made chiefly through tickets in hands of route customers, but that sales are made also on credit to stores and institutions and in these cases special discounts may be allowed.

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The modern type of bakery, that is one which maintains central manufacturing plants with one or more depots from which deliveries can be made to route customers, affords an opportunity for the application of a simplified and standardized form of accounts. Demand for the product is fairly constant, with the exception possibly of summer vacation periods; there is little variation in the kind of materials used; and as the most part of sales are made through employees, who are themselves responsible for the amounts sold, the problems of credit and of bookkeeping in connection with receivable accounts are much less than in the case of other types of business.

On the other hand, there are features of bakery accounting which must have special attention. These are such as the following:

- (a) The careful buying of major ingredients required; e.g., flour, sugar and yeast,
- (b) Accurate control over materials,
- (c) Complete control over tickets,
- (d) Provision against loss due to unauthorized credits to customers by the driver-salesmen,
- (e) The provision of an accounting system which will provide for monthly statements, without being too detailed as to costs.

(a) The large amounts required of the major ingredients, such as flour, sugar and yeast, necessitate cautious buying in order to maintain the supplies of raw materials which will take care of the needs of the business, without on the one hand keeping too large an inventory and on the other hand running the risk of a rise in price of raw materials, with small stocks, without a corresponding increase in the price of the products. A careful study of the market conditions with reference to such ingredients as those mentioned will often show that it is possible to contract for considerable periods in advance for these items at favourable rates. When such contracts are made it is necessary to provide for a contingent liability in respect of such commitments either by a note on the balance sheet or, preferably, by the provision of offsetting accounts which will appear on both sides of the balance sheet.

(b) Two methods of materials control can be used. The first is the standard one of keeping complete stock records, with cards for the main ingredients and for special classes of sundry ingredients, to which quantities only are posted, if separate warehouse records are kept, and quantities and values posted on the accounting records. The materials are charged with purchases, for which receiving slips are kept as supporting evidence, and credited with amounts withdrawn for production on requisition forms. Monthly inventories should be taken, but quarterly inventories would be possible. The second method is the one which is advocated for use. Under this method inventories are taken monthly (they can also be taken weekly to advantage). To these inventories are added the purchases for the month and from the total the inventories at the end of the month are deducted. The difference is charged to Production Clearing Account. The check on the quantities thus accounted for is made through the fact that the management knows the quantities of each ingredient required for any unit of the finished product. By multiplying these quantities by the number of units produced the total quantities required are ascertained. Any variation between these totals and the amounts charged as above outlined can be quickly located.

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(c) The item of ticket control is of particular importance. It is the general practice to issue tickets of different colours for different values and to change the colours at intervals in order to enable the management to determine how fast the tickets are being redeemed and also as a check against misuse of tickets. Sales of cakes and similar products are usually made for cash or on credit. The accountant or general manager, or officers of the company of similar rank, should be the only ones to have access to unused and redeemed tickets, which should be kept under lock. The redeemed tickets should be destroyed weekly, or daily if desired, in the presence of two such officials. The officer responsible for the tickets should also keep a record of the amount received from the printers, the amount issued to depot supervisors or superintendents, and amount redeemed to be destroyed. Also returns should be recorded, and each month a reconciliation statement should be made out. The depot supervisors should keep all unissued, returned, and redeemed tickets under lock, in their own control, until returned to head office. The supervisors should also keep possession of the books in which would be recorded the amount received from head office, the numbers of tickets issued to drivers, sales and returns by drivers, and tickets redeemed.

(d) Very often a salesman will allow a customer on his route credit for tickets sold to him or for goods delivered and unpaid for. In these cases the salesman is to be charged with the value represented and made to account for same. It is necessary, therefore, to keep a Salesman's Suspense Debits Account. This Account should be the controlling account for a Salesmen's Suspense Debits Ledger, in which the salesman would be charged with the items mentioned above and would be credited with cash turned in later. In order to provide to some extent against loss in realization of these accounts, monthly deductions from wages should be made for each driver until a sum is built up of one hundred to five hundred dollars, as desired by the management. These amounts would be kept in a Salesmen's Security Ledger. Interest is usually allowed at the rate of four to six per cent. A salesman whose accounts with customers had been settled, upon leaving the employment of the company would be entitled to withdraw the amount remaining to his credit, plus interest, if interest is allowed.

(e) The books of account and other records required should include the following:

1. General Ledger.
2. Accounts Receivable Ledgers—Trade and Sundry.
3. Salesmen's Suspense Debits Ledger.
4. Salesmen's Security Ledger.
5. Plant Ledger.
6. Cheque Register.
7. Cash Journal.
8. Voucher Journal.
9. Sales Journal.
10. Recurrent Journal.
11. General Journal.
12. Ticket Record—Head Office.
13. Ticket Records—Depots.
14. Drivers' Material Slips.
15. Drivers' Sales Reports.
16. Materials Inward Book.
17. Materials Outward Book.

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18. Depot Petty Cash Reports.
19. Drivers' Petty Cash Reports.
20. Periodical Statements and Reconciliations.

1. The General Ledger contains the Balance Sheet accounts in as far as possible the order in which they will appear on the completed Balance Sheet e.g., Reserves for Depreciation should follow the assets accounts to which they refer. Some operating accounts, such as Interest, Discounts, etc. would also appear.

2. Two Accounts Receivable Ledgers should be kept, one for trade customers-stores, etc., and one for clubs, institutions, and the like. These ledgers should be of the standard loose-leaf form for use with bookkeeping machines, or if the accounts are not too numerous, a visible form of ledger can be used, as this form, by the use of cards, is better adapted where the entries are usually many and of small amounts.

3. Salesmen's Suspense Debits Ledger should be of similar form to the Accounts Receivable Ledgers.

4. Salesmen's Security Ledger should make provision on the ledger sheets for debits and credits and for a column for Interest.

5. Plant Ledger is merely a detailed record of the items making up the plant and machinery and vehicle accounts. Each main item of machinery, such as ovens, pans, conveying machinery, and wrapping machinery, can be kept on a separate sheet, as also can the autos and trucks and other vehicles, and horses. Each sheet should show the name of the item, description, location, date of purchase and cost, rate of depreciation to be provided and any other remarks. The columns should provide for debits and credits and also for depreciation set up. Memo columns, if desired, can be used for repairs and maintenance.

6. Cheque Register records bank transactions only, as all expenditure is put through by vouchers. The columns to be provided would be (in horizontal order in the cheque register) as follows: Interest and exchange; cash discounts received; bank current; bank savings; bank local; cheque number; date; payee; voucher number; vouchers payable; interest and exchange; accounts receivable (for returned cheques, etc.); sundry-amount; sundry-account.

7. The Cash Journal would contain the following columns: Bank, current; bank, savings; date; item; bank, savings; bank current; banks, local; accounts receivable (trade and sundry); interest and exchange; sundry-amount; sundry-account.

8. The Voucher Journal is very important in as much as it will contain all the operating accounts. A form of journal in which cut leaves can be used is required. On the left side will appear: Production clearing; vouchers payable; voucher number; invoice date; date paid; item.

On the right side will be the distribution columns in various groupings:

(1) Raw materials: Flour; sugar; shortening; yeast; milk; eggs; sundry bread ingredients; sundry cake ingredients.

(2) Direct Labor: Bread department foremen; bread department labour; bread wrapping labour; cake department foremen; cake department labour; cake department wrapping labour.

(3) Direct Expenses: (Note: The same accounts will appear for both bread and cake departments.) Oven fuel; labels and wrappers; repairs; sundry expenses; water; depreciation (as required).

(4) Indirect expenses: General labour; general supplies; general expenses; taxes; insurance; light.

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(5) Shipping Expenses: Shipping labour; freight and express; packing materials; sundry expenses.

(6) Delivery Expenses—Horse Vehicles: Stable labour; stable supplies; stable expenses; feed; wagon licenses; sundry expenses; depreciation (for each) horses; wagons and sleighs; harness.

(7) Delivery Expenses—Autos and Trucks: Garage labour; garage supplies; garage expenses; repairs; licenses; sundry expenses; gas and oil; depreciation.

(8) Selling Expenses: Drivers' wages and commissions; advertising; sundry supplies; sundry expenses.

(9) Administration Expenses: Management salaries; office salaries; office stationery and supplies; depreciation (as required); postage and excise; telephone and telegraph; sundry expenses.

(10) General ledger-amount; general ledger-account.

9. The Sales Journal is another very important record and should be of a type adaptable to the use of many columns which will include, in order, the following:

On the left side: (debits) Local cash; local bank; tickets redeemed; salesmen's suspenses credits; returns, bread; returns, cake; discount, bread; discount, cake; accounts receivable, trade; accounts receivable, sundry; sundry-amount; sundry-account.

In the centre should be date; item; and a memo folio column.

On the right side: (Credits) Accounts receivable-trade; accounts receivable, sundry; sales, bread; sales, cake; tickets outstanding; salesmen's suspense debits; local cash; sundry-amount; sundry-account.

10. Recurrent Journal is a section of the general journal containing all entries which occur monthly; i.e. in which there is little, if any, variation in the accounts concerned. The use of this type of journal dispenses with the making out of journal requisitions and the entering of same each month, as once the entry has been set up, it is only necessary to fill in the amounts required each month, as one column, (or two, if desired) is used for each month. Such entries would be the monthly provisions for depreciation, for write-offs for insurance, licenses, taxes, etc. and for similar profit and loss items.

11. The General Journal can be of any type in use, as it will only contain special and adjusting entries and annual closing entries.

12 and 13. Ticket Record at Head Office, and Ticket Records at Depots will contain the information outlined in section (c) above.

14. Drivers' Material Slips show the various products and quantities taken out daily by the driver, for which he is responsible.

15. Drivers' Sales Reports are made out daily by each driver and contain the following information: Date; Name of Driver; Route Number. (The remainder of the items will appear on the report in vertical order.)

On the left side: Bills and Change; Checks, etc.; Total Cash Received; Tickets Redeemed (colour and number); Accounts Receivable, Trade; Accounts Receivable, Sundry; Suspense Debts; Total.

On the right side: Bread Received; Less Bread Returns; Cakes Received; Less Cake Returns; Total Sales; Less Bread Discount; Less Cake Discount; Net Sales; Tickets Outstanding (sales by colour and number); Accounts Receivable, Trade; Accounts Receivable, Sundry; Suspense Debits; Total.

The two full totals should of course agree.

The report should be signed by the driver and should be O.K.'d by the depot supervisor. The cashier should also O.K. the report

ACCOUNTING SYSTEM FOR A BAKERY

when he receives the cash from the driver. Space would also be provided for details of the charges and credits to Accounts Receivable.

16. Materials Inward Book records the receipt of all materials and supplies. Two copies should be made by carbon, the original being sent, after quantities, weights, etc., are checked, to the supplier's agent or employee. The first copy would be O.K.'d by the receiver and sent to the Accounting Department to be checked with the invoice covering same. The second copy would remain as the receiver's own permanent record. At the depots, this book would record all finished goods received from the baking plant, by product and quantity in duplicate. The duplicate copy would be O.K.'d by the supervisor and sent to Head Office to be checked with the Materials Outward Book.

17. Materials Outward Book should record all goods shipped to depots and also returned to suppliers, such as containers or materials returned for credit. This should be kept in duplicate, a copy being sent to Head Office for checking purposes.

18. Depot Petty Cash Reports are made up by the depot cashier or supervisor and sent in weekly to Head Office with supporting vouchers to be reimbursed. The fund to be kept should not exceed Fifty Dollars.

19. Drivers' Petty Cash Reports are necessary when the drivers are allowed to keep a small sum, say Five Dollars, for minor expenses, such as meals, horseshoeing, etc. The reports should be sent in monthly or weekly, if necessary, to be reimbursed by the depot cashier.

20. The periodical statements and reconciliations are of great importance. Some of those to be prepared are:

(a) Ticket Reconciliation.
(b) Statement of unrecorded materials and expenses.
(c) Inventories of materials and supplies.
(d) Production Expense Statement.
(e) Trial balances.
(a) Ticket Reconciliation—This would have vertical columns as follows: Color and Series; Quantity; Sales Value; Total Sales Value. The Inventory at the beginning of the month would include: Stock unissued; In hands of drivers; Redeemed (to be destroyed); Total. To this would be added new tickets received during the month from printers. Sales for the month would be deducted. The balance on hand at the end of the month would also consist of: Stock unissued; In hands of drivers; Redeemed (to be destroyed); Total.

(b) Statement of unrecorded materials and expenses—this statement contains information relating to all materials received during the month and included in the inventories but not recorded in the Voucher Journal. Also included would be accrued charges such as light, phone, gas (fuel), etc., for which likewise, invoices had not been passed or entered in the Voucher Journal. These items would be entered in the Recurrent Journal as a credit to Vouchers Payable and a charge to Production, which entry would be reversed in the following month.

(c) Inventories of materials and supplies would be of the usual type.

(d) Production Expense Statement will list the operating accounts as in the Voucher Journal and will contain columns for each month with a final total column for the year, or a separate statement for each month can be made up with a second column for the same month of the preceding year for purposes of comparison. The

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figures to be used in this statement will be obtained by adding to the totals in the Voucher Register:

- First—the inventories at the beginning of the month,
- Second—the amounts taken from statement (b) above,
- Third—debits to operating accounts in the Sales Journal.

From the totals will be deducted:

- First, credits to operating accounts in the Cash and Sales Journals.
- Second, amounts included in statement (b) for the preceding month,

Third, the inventories at the end of the month.

To this net total will be added the charges for depreciation, insurance, etc. as shown in the Recurrent Journal. To obtain cost figures per unit, the amounts of the materials and expenses charged to the two departments are divided by the quantities produced.

(e) Trial balances of all ledgers should be prepared monthly and the balances reconciled with the balances of the controlling accounts in the General Ledger.

General Ledger Accounts

A list of the most important accounts to be kept subject to revision according to the needs of the business, but based on the requirements of the system above outlined, follows. As far as possible the accounts should be in the order in which they will appear on the Balance Sheet and should be numbered in some such manner as indicated. A system of numbering the operating accounts based on series of numbers for different groupings is usually most efficient, e.g., Flour, 101, Sugar, 102, etc. using 100 numbers; Bread Foremen, 201, Bread Labour, 202, etc., using 200 numbers for Direct Labour, 300 for Direct Expenses and so on, for the accounts listed in the operating section of the Voucher Journal.

Cash and Bank

1. Local Cash
2. Petty Cash
3. Petty Cash Local
4. Bank-Savings
5. Bank-Current
6. Banks-Local
7. Bank Payroll (if kept)

Receivables

11. Accounts Receivable-Trade
12. Accounts Receivable-Sundry
13. Reserve for Loss on Collections
14. Salesmen's Suspense Debits

Inventories and Prepaid Charges

15. Raw Materials
16. Finished Goods
17. Supplies-Factory
21. Prepaid Charges-Sundry
22. Prepaid Taxes
23. Prepaid Licenses
24. Prepaid Insurance
25. Prepaid Supplies-Office
26. Prepaid Supplies-Delivery
27. Commitments (contra)

Fixed Assets (with appropriate depreciation reserve accounts numbered the same as the assets concerned with suffix "a")

ACCOUNTING SYSTEM FOR A BAKERY

- 31. Land
- 32. Buildings
- 33. Ovens
- 34. Pans
- 35. Sundry Machinery
- 36. Plant Equipment
- 37. Office Equipment
- 38. Autos and Trucks
- 39. Horses
- 40. Wagons and Sleighs
- 41. Harness
- 42. Garage Equipment
- 43. Stable Equipment

Payables

- 51. Accounts Payable
- 52. Wages Payable
- 53. Reserve for Income Tax
- 54. Reserve for Dividends
- 55. Salesmen's Security
- 61. Tickets Outstanding
- 62. Accrued Charges, Sundry
- 63. Accrued Water
- 64. Accrued Taxes
- 65. Commitments (contra)

Capital

- 66. Capital Stock
- 67. Profit and Loss
- 68. Surplus

Sundry

- 71. Production Clearing
- 72. Sales, Bread
- 73. Sales, Cake
- 74. Returns, Bread
- 75. Returns, Cake
- 76. Discount, Bread
- 77. Discount, Cake

Remarks concerning some of the accounts and routine are now in order.

Cash—Cash received from drivers should be deposited daily in a local bank adjacent to the depot. The cashier should send a duplicate of the deposit slip along with the drivers' reports daily to head office. The local bank accounts should be subject to withdrawal by the accountant or cashier at head office only and the balance should be transferred weekly to a savings account near the Head Office.

Banks—It is not necessary to keep two head office accounts, i.e., Current and Savings. The advantage is that better returns from interest can be obtained by depositing all receipts in a savings account, from which transfer to the current account could be made as required. It would be possible to maintain a working balance in the current account of several thousand dollars as indicated by the requirements of the business.

Drivers' Suspense Debits—Production is based on orders, therefore, the goods taken out by the drivers are charged to them in this account (Controlling account for the Drivers' Suspense Debits Ledger). The drivers are also charged with value of tickets taken and cash collections. They are credited with cash turned in, tickets redeemed, etc.

COST AND MANAGEMENT

as shown on the drivers' reports. Once a week, credit authorized by the management is allowed for goods unsold which are returned, which are credited at sales values, as charges to this account are at sales values for both goods and tickets.

Wages—Wages should be paid weekly in order to get the amount of the payrolls into the records as soon as possible. Wages may be paid in cash, and the weekly period should so end that the cash would be paid out, after the payrolls had been checked, approved, etc., about the middle of the following week. If desired, and possibly it would be preferable, wages could be paid by cheque in which case a separate Payroll Bank Account could be opened by Head Office, in which a cheque for the total of the payroll on the current account could be deposited, the individual wage cheque being issued on the Payroll Account.

Inventories—Accounts will be grouped into: Raw Materials, Finished Goods, Supplies, Raw Materials Account will be charged with inventories beginning of month and totals from Voucher Journal of purchases during the month and will be credited with transfers to Production Clearing Account. Supplies will be treated in a similar manner. Finished Goods—As the production of goods is based on orders to be filled, there will be, therefore, no regular inventory of such to be considered, all finished goods being charged to the drivers at sales values. The account may, however, contain such items as those relating to special orders not delivered, fresh returns, for which credit has been allowed to drivers, and items of a similar nature, all of which will be valued at cost.

Goods Production—Each day each driver would hand in his orders for the next days requirements. This order would be sent in immediately to Head Office, and the baking for the night production would be based on these orders. When the baking was finished and the products wrapped, if so required, transfer would be made of the finished goods to the various depots by transport trucks. The shipper at the plant would record all shipments as to product and quantity. The receiver at the depot should also record the goods received in the same way.

Production Clearing Account This account will be charged with: inventories, beginning of month; unrecorded items, end of month; monthly write-offs. It will be credited with: inventories, end of month; unrecorded items, end of previous month. All of these entries will be posted from the Recurrent Journal. Sundry items will be posted from the Cash and Sales Journals, and the total of all operating accounts entered in the Voucher Journal for the current month. The balance will represent the profit or loss for the month from operations and will be closed out by journal entry through the Recurrent Journal to Profit and Loss. Sales and Returns and Trade Discount will be carried as General Ledger Accounts, but the monthly balances will be transferred through the Recurrent Journal to Production Clearing.

Profit and Loss Account—This will be charged or credited with the results of the month's operations. To it can also be transferred monthly sundry items such as Cash Discounts (received and allowed); interest and exchange, etc. The balance in the Profit and Loss Account will represent accumulated net profits or losses for each month. At the end of the fiscal year, after any required adjusting entries have been made, the final balance will be transferred to Surplus Account. It would be possible to use an "intermediate" account, i.e., Profit and Loss Appropriation Account, but this is not considered necessary.

TARIFF and TAXATION

DEPARTMENT OF NATIONAL REVENUE

DEPARTMENTAL RULINGS

Instrument board lamps for automobiles are now made in Canada and are, therefore, not entitled to entry under Tariff Item 438d. (This cancels Departmental ruling in Appraisers' Bulletin No. 3632).

Common and colourless window glass, as provided for in Tariff Item 318, is held to include glass in sheets, not being plate, such as that commonly known as Single-Diamond or "Star" and Double-Diamond, weighing 18 ounces and 24 ounces, respectively, per square foot. Glass in sheets, not being plate, weighing 26 ounces or over per square foot, is held to be subject to entry under Tariff Item 319.

The ruling in Appraisers' Bulletin No. 3497, under file No. 145072, re export of radio equipment for repairs on Form E. 23 under the regulations in Memorandum No. 896 B, is cancelled.

In cases where radio equipment required to be repaired is claimed to be of a special nature and not repairable in Canada, particulars are to be submitted to the Department for decision.

From information before the Department, the following articles are of a class or kind not made in Canada:—

- (a) Tableware of china, porcelain, semiporcelain, white granite or ironstone, except undecorated teapots with other than a white body or fracture.
- (b) Other earthenware or art pottery, with a white body or fracture, except lamp bases and chambers.

The following articles of earthenware are considered to be of a class made in Canada:

- (a) Teapots, not decorated, with other than a white body or fracture, such as Rockingham ware.
- (b) Other earthenware or art pottery, with other than a white body or fracture, such as Rockingham ware, except tableware.

(c) Lamp bases and chambers, decorated or not.

The word "tableware," as used in this Bulletin, may, for Customs entry purposes, be defined as "articles commonly used for the purpose of setting a table for the service of meals," not including articles such as vases, jardinières, bulb or flower bowls, ash trays or candlesticks.

Time Enlarged

The Minister of National Revenue under the authority vested in him by Section 40 of the Income War Tax Act, has enlarged the time for filing Income Tax returns for the year 1933 on Forms T-3 until the 31st March, 1934.

Intermediate Tariff Extended to Germany

Referring to Order in Council (P.C. 598), dated 31st March, 1933, published in Supplement i to departmental Memorandum No. 602, dated 3rd April, 1933, Collectors are advised that by Order in Council (P.C. 2674), dated 23rd December, 1933, to be published in the *Canada Gazette* of 30th December, 1933, the benefit of the intermediate tariff

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is extended to products originating in and coming from Germany when imported direct, conveyed without transhipment from a port of Germany or from a port of a country enjoying the benefit of the Preferential or Intermediate Tariff into a sea, lake or river port of Canada, this agreement to continue in force until repealed by Order in Council published in the *Canada Gazette*.

Intermediate Tariff Extended for Further Period

By Order in Council (P.C. 2705) dated 29th December, 1933, the benefit of the intermediate tariff is extended for a further period of one year from 1st January, 1934, to products originating in and coming from Austria when imported direct, conveyed without transhipment from a port of Austria or from a port of a country enjoying the benefit of the Preferential or Intermediate Tariff into a sea, lake or river port of Canada.

Regulations Respecting Travellers' Samples

Memorandum No. 663 is hereby amended by the addition of the following regulation pertaining to samples from British or Most Favoured Nation Countries, which, after temporary entry has been on deposit, are taken to the United States and returned within twelve months from the date of the temporary entry.

11. Samples admitted to temporary entry on deposit under the special regulations respecting samples from British and Most Favoured Nation Countries may be taken to the United States by the traveller and returned to Canada merely upon report at Customs at any time within twelve months from the date of the temporary entry. On their return the samples may be admitted without entry if, upon being checked by a Customs officer against the copy of the temporary entry and invoice in possession of the traveller, the officer is satisfied that the samples are those referred to in such temporary entry.

Ottawa, 27th February, 1934

The Honourable the Minister of National Revenue has ordered that the fixed valuation for duty purposes on Brass and Copper Products, as set forth in Appraisers' Bulletin No. 4082, be cancelled effective on and after the 1st March, 1934.

ORDER IN COUNCIL

Whereas representations have been made to the Minister of Finance by manufacturers of anti-freezing compounds that it is impossible to obtain Ethylene Glycol, which is used in the manufacture of their products, from Great Britain or elsewhere in the Empire, and the said manufacturers have requested that Ethylene Glycol be placed on the free list for a period not exceeding six months;

And whereas in view of the provisions of the United Kingdom Trade Agreement, His Majesty's Government were asked if in the circumstances they would raise objection to the granting of the above mentioned request;

And whereas the Secretary of State for Dominion Affairs has advised that His Majesty's Government in the United Kingdom offer no objection to the suspension of the Intermediate and General Tariffs on Ethylene Glycol for a period not exceeding six months from January 1, 1934;

Therefore His Excellency the Governor General in Council, on the recommendation of the Minister of Finance and under the authority of section 284, paragraph (k), of the Customs Act, is pleased to make the following regulation and it is hereby made and established accordingly:

TARIFF AND TAXATION

Regulation

The following article imported to be used as material in Canadian manufactures shall be entitled to entry free of duties of Customs under all tariffs, until the 30th day of June, 1934, namely:—

Ethylene Gycol, when imported by manufacturers of anti-freezing compounds to be used exclusively in the manufacture of anti-freezing compounds, in their own factories—

British Preferential Tariff	Free
Intermediate Tariff	Free
General Tariff	Free
(to be designated as Tariff Item No. 816).	

Supplement No. 4 to Appraisers' Bulletin No. 3897

Ottawa, 8rd February, 1934.

Effective 1st January, 1934, the United States Federal Excise Tax on Gasoline was reduced to 1c per United States gallon.

Marking of Imported Goods.

Ottawa, 6th February, 1934.

Toilet Paper in rolls, or in interfold packages

Referring to Memorandum No. 9-A and Supplements thereto, you are advised that by Order in Council passed on the 31st January, 1934, (P.C. 181/193) the following class or description of goods is added to the list of articles required to be marked with an indication of the country of origin on importation into Canada, under Section 16 of the Customs Tariff, effective from and after 2nd April, 1934:

9. Toilet paper in rolls, or in interfold packages.

Marking of Imported Goods.

Ottawa, 7th February, 1934

Decalcomania and Dry Transfers

Order in Council P.C. 349/991, dated 18th May, 1930, referred to in Supplement No. 9 to Memorandum No. 9-A, amending Order in Council P.C. 1938 of 21st September, 1922, by providing for the marking of imported decalcomania transfers on the back or carrier portion thereof, was cancelled by Order in Council (P.C. 163/193) dated 31st January, 1934.

Supplement No. 9 to Memorandum No. 9-A is cancelled, and the following regulation is established governing the marking of imported decalcomania and dry transfers, effective on and after 15th March, 1934:

Regulation

Decalcomania or dry transfers over one inch in any dimension, not including decorative, ceramic or enamel transfers, are required to be marked with an indication of the country of origin as printed or lithographed matter on each transfer, and in order that such indication of the country of origin shall be in a conspicuous position and as permanent as the nature of the goods will permit, as required under Section 16 of the Customs Tariff Act, the said indication is required to appear on the face of each transfer in such a manner as to be conveyed along with the transfer to the article to which it is intended to be applied.

Decalcomania and dry transfers one inch or less in any dimension, and all decorative transfers, may be marked with an indication of the country of origin on the back or carrier portion thereof, or on each sheet or roll.

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Imported ceramic or enamel transfers are not required to be marked with an indication of the country of origin.

Ottawa, 10th February, 1934.

Currency—£ Sterling

Referring to Memorandum 673, by which you were advised to accept as the basis for duty purposes, until otherwise instructed, \$4.86-% as the value of the pound sterling, you are now advised that, until otherwise instructed, special or dumping duty will not be applied on any such importations unless a sum less than \$4.86-% in Canadian currency for each pound sterling of the fair market value be paid for the said goods.

Regulations Respecting Travellers' Samples

Ottawa, 14th February, 1934.

Memorandum No 663 is hereby amended by the deletion of the words "into a sea, lake or river port of Canada," in the second line of paragraph 4 thereof.

Supplement to Appraisers' Bulletin No. 3777

Ottawa, 6th March, 1934.

The Honourable the Minister of National Revenue has ordered that the fixed valuation for duty purposes on Metal Name Plates, as set forth in Appraisers' Bulletin No. 3777 be cancelled effective on and after the 8th March, 1934.

Ottawa, March 8, 1934.

The Honourable the Minister of National Revenue has been pleased to establish the following Regulation under authority of Subsection 6 of Section 80 and Section 99 of the Special War Revenue Act;

Importations of goods enumerated in Customs Tariff Items 23 and 141 are to be subject to the Excise tax of 2 cents per pound on sugar, syrups or substitutes therefor, and 1 cent per pound on glucose or grape sugar according to the quantity of any such materials contained in the goods enumerated in the said Customs Tariff Items, with effect from March 12th, 1934; provided that goods bona fide in transit or in bond in Canada on that date may be entered at Customs without the imposition of the said tax.

Importers will be required to furnish to the Collector of Customs and Excise at the Port of Entry, on presentation of their entries, a declaration from the manufacturer or exporter of the goods, in a form similar to the attached, showing the sugar, syrup and/or glucose content of the imported goods.

If the aforementioned certificate cannot be produced at the time of entry, the goods may be entered for consumption upon payment of the tax at the rate of 2 cents per pound on the net weight, subject to adjustment by refund on production of the said certificate.

The Special Excise tax of 3 per centum on the Customs duty paid value will continue to apply in addition to the Excise tax herein referred to.

Ottawa, 9th March, 1934.

Referring to Memo. No. 1388-B, 25th February, 1907, re invoices furnished by persons and firms resident in Canada, for entry by a Canadian importer to whom exporter has shipped the goods direct.

TARIFF AND TAXATION

You are instructed that in all cases the original invoice from the exporter outside of Canada to the Canadian purchaser from such exporter must show the fair market value in the country of export in like quantity and condition, and as provided by The Customs Act, and be furnished to the Collector of Customs and Excise at the place where the invoice for Customs entry is prepared, so that the Collector may verify therefrom THAT NO LESS FAIR MARKET VALUE IS SHOWN on the invoice prepared in Canada. In such case the Collector may place on the invoice for Customs entry purposes a signed notation that the fair market value shown thereon is not less than that shown on the original invoice from the exporter outside of Canada, which has been produced. Where the selling price to the purchaser in Canada to whom the goods were shipped direct is less than the fair market value the provisions of Section 6 of the Tariff apply.

Invoices furnished by persons or firms resident in Canada are not to be accepted for entry purposes when not bearing the above required notation by a Collector of Customs and Excise.

Where goods are claimed to be entitled to entry under any Tariff other than the General Tariff, the Collector is to verify from the original invoice the proper certificate of origin, and include in his notation upon the invoice for Customs entry purposes a statement that same has been produced.

Circular 298-C is hereby cancelled.

Ottawa, 14th March, 1934.

You are advised that effective February 1st, 1934, the Department will hold that fire clay manufactured or produced in Canada or imported, is subject to sales tax.

Departmental Rulings

The ruling in Appraisers' Bulletin No. 3497, under file No. 145072, re export of radio equipment for repairs on Form E.23 under the regulations Memorandum No. 896 B, is cancelled.

In cases where radio equipment required to be repaired is claimed to be of a special nature and not repairable in Canada, particulars are to be submitted to the Department for decision.

Regarding Income Tax

An official memorandum dated February 15, 1934, signed by C. F. Elliott, Commissioner, was issued to Inspectors of Income Tax. It reads:-

Exemption for dependent relatives under Section 5, Paragraph (i). Where two or more taxpayers are contributing to the support of one dependent relative of the class described in paragraph (i) of Section 5, each taxpayer is entitled to an exemption of the amount extended, provided always that the aggregate amount contributed by the taxpayers claiming for any one such dependent does not exceed \$400.

Where the amount contributed for one such dependent exceeds \$400 in the aggregate, then the statutory allowance of \$400 should be pro rated according to the amount actually expended by each taxpayer, i.e., the allowance shall be that share of the \$400 which the contribution of the taxpayer bears to the total of the contributions made to the support of the dependent.

This ruling applies to assessments for the 1932 taxation period and subsequent periods.

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THE TARIFF BOARD

Declaration of the Tariff Board

The Tariff Board, sitting on Appeals, on the 13th February, 1934, under the provisions of Part II of The Tariff Board Act, in the matter of Appeal Number 33 (Felt Hats), by Anderson-Macbeth Limited, Toronto, ruled, on the 28th February, 1934, as hereunder:—

In The Matter of Entry Number 33836-D bearing date of December 29, 1933, in respect of an entry for home consumption of goods exported to Canada direct from Great Britain via Saint John, imported by Anderson-Macbeth Limited.

Upon the application of Anderson-Macbeth Limited, made the thirteenth day of February, 1934, at a hearing called for the purpose of considering the application, in the presence of A. O. Thorne, representing Anderson-Macbeth Limited, and of F. P. Varcoe and F. R. Sims representing the Department of National Revenue, and G. F. Henderson, K.C., representing the Lancashire Felt Company of Canada Limited and H. W. Macdonnell, representing the Canadian Manufacturers Association, and it appearing to the Tariff Board that the goods described in said Entry Number 33836-D have been allowed entry at an erroneous valuation and that the provisions of The Customs Act requiring the appraisal of the said goods at the true and fair market value thereof have not been complied with in that the appraiser or collector erroneously acted under the provisions of Section 43 of The Customs Act, which Section does not apply to goods entitled to entry under the British Preferential Tariff, the goods described in the said entry number 33836-D being goods entitled to entry under the British Preferential Tariff.

1. The Board hereby appraises and values the said goods, being one case of six dozen Felt Hats, at the invoice value thereof in currency of invoice, namely, £23.2.0, the value for duty of the same in dollars, computed at \$5.04 to the pound, being \$115.88, and the rate of duty being 22½ per cent less 10 per cent on the value of the said goods and inside packing and 15 per cent on the value of the case, and, the Board declares that the total Customs duty properly payable upon the said importation was and is \$22.26 and that the duty paid value of the said goods is \$138.14.

2. And the Board hereby directs an amended entry giving effect to the appraisal and valuation hereinbefore set forth and that the Department of National Revenue do forthwith refund to Anderson-Macbeth Limited, the sum of \$11.84 being the difference between \$34.10, the amount of Customs duty paid in respect of said Entry Number 33836-D, and \$22.26, the amount of Customs duty properly payable in respect of the goods covered by the said Entry.

The Tariff Board, sitting on Appeals on the 7th February, 1934, under the provisions of Part II of the Tariff Board Act, has ruled, on the 1st March, 1934, as hereunder:—

In the matter of Appeal Number 34, brought by Chantler & Chantler Limited, Toronto, from the ruling of the Department of National Revenue that Rubber Combs are of a "class or kind" made in Canada: Appeal dismissed.

Sixth International Congress for Scientific Management

THE Sixth International Congress for Scientific Management will take place in London from July 15th-20th, 1935. Plenary Sessions will be held in the Central Hall Westminster. Group Sessions will take place in the Central Hall and in five other halls in the vicinity. The offices of the Congress will be at: 21, Tothill Street, London, S.W. 1.

PROGRAMME

The programme of the Congress will be as follows:—

Monday,	July 15th	Morning	—Opening Session
		Afternoon	—Plenary Session
Tuesday,	July 16th	Morning	—Section Sessions
		Afternoon	—Section Sessions
Wednesday,	July 17th	Morning	—Section Sessions
		Afternoon	—Section Sessions
Thursday,	July 18th	Morning	—Plenary Session
		Afternoon	—Closing Session
Friday & Saturday		—Excursions and visits to factories.	
July 19th & 20th			

SESSIONS

Plenary Sessions.—The subjects to be discussed at the two plenary sessions will be selected six months before the Congress by the British Organising Committee in consultation with the International Committee. They will be chosen as questions of immediate and worldwide practical importance and interest in the field of business management at the time of the Congress. Eminent industrialists from the various countries will be invited to deal with these questions.

Section Sessions.—Section Sessions will in general be devoted to the discussion of the various subjects allotted for the Congress as shown hereunder. Should the "free subjects," described below, indicate other questions as of particular interest to those concerned with scientific management in the different countries, the British Organising Committee will make arrangements for their discussion.

OBJECT OF THE CONGRESS

It is the purpose of the Congress as a whole to obtain papers and discussion of practical applications of scientific management in all its phases. References to actual technique should relate to specific problems and how they have been met. The British Organising Committee has specially requested that all authors of papers should indicate the commodity produced and the size and nature of the undertaking whose experience is described.

SUBJECTS

Allotted Subjects.—The subjects allotted for discussion at the Congress are given below. The order in which the various sections are presented does not imply any priority in interest or importance.

Manufacturing Section

"Methods of controlling production." Sub-heads:

- Budgetary control, standards and forecasts.
- Scientific methods applied to works management.
- Production control to meet changes of product, of design or of process.

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d. Production management technique.

Agricultural Section

"Standardisation as a factor in agricultural development, including standardisation of equipment, methods and produce." Sub-heads:

- a. Mechanisation on the farm.
- b. The use of accounts in farm management.
- c. The preparation of produce for market.
- d. Specialised versus mixed farming.

Distribution Section

"Concrete examples of the application of scientific management to distribution problems in manufacturing, wholesaling and retailing." Sub-heads:

- a. Methods of organisation which manufacturers have applied to their distribution systems and including control of distribution processes
- b. Methods applied to distribution problems by wholesalers.
- c. Methods applied to distribution problems by retailers.
- d. The planning and carrying out of schemes for the sale of products not previously marketed.

Educational and Training Section.

"Methods of selection, education and training of personnel suitable for high administrative positions." Sub-heads:

- a. Preliminary education.
- b. Sources of recruitment and methods of selection.
- c. Objects and methods of training and further education.
- d. Avoidance of excess and waste of personnel selected and trained for high administrative positions.

Development Section

"What are the correct methods of inculcating modern management principles and practices in large-scale, medium and small undertakings, What is the rôle of Trade or other Associations in this field?" Sub-heads:

- a. Large-scale organisations.
- b. Medium-scale organisations.
- c. Small-scale organisations.
- d. The rôle of institutions, trade and other associations and similar bodies.

Domestic Science Section

"How far can Scientific Management in the home contribute to the raising of the standard of life?" Sub-heads:

- a. Food planning in the Home to ensure satisfactory nutrition with a minimum expenditure of time, money and labour.
- b. The development of scientific home management in agricultural areas.
- c. The technique of scientific management in the home:
 - i. What are the present methods of investigation?
 - ii. How can improved techniques be evolved?
 - iii. What steps should be taken to secure the application of results?
- d. The rôle of organised services outside the home in relation to scientific management in the home.

Free Subjects

This section of the Congress is an innovation. It is part of the object of the Triennial International Congresses on Scientific Manage-

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ment to enable workers in this field in all countries to make themselves acquainted with the most recent experiments and research in every part of the world. Owing to the necessity of fixing the subjects allotted for the Congress some long period in advance and of limiting the programme of subjects, it may well happen that individuals are doing highly original and important work which does not fall within that programme. On the other hand contributions from such individuals would greatly enhance the Congress proceedings. The opportunity has therefore been offered to National Committees to submit a limited number of outstanding contributions, additional to their contributions on the allotted subjects, which deal with any subject within the general field of Scientific Management. Such contributions must contain original studies based on actual practice and be approved by the National Committee concerned, the International Committee and the British Organising Committee for inclusion in the proceedings of the Congress. If papers are received from a number of different sources dealing with the same or allied subjects and thus indicating a common interest in some question not covered by the Congress programme, or if some paper on a "free subject" appears to be of sufficient interest to justify this course, the British Organising Committee will make arrangements for the discussion of these papers.

FILMS

Organisations which possess cinematograph films relating to the subjects of the Congress are asked to send proposal concerning the same to the Secretary of the British Organising Committee.

ORGANISATION

H.R.H. The Prince of Wales has consented to act as Patron of the Congress, Sir George Beharrell, D.S.O., past President of the Federation of British Industries, will be the Chairman of the Congress. The British Government is giving its support to the Congress through the Departments concerned. The arrangements for the Congress are under the general direction of the International Committee for Scientific Management. Arrangements in Great Britain are under the direction of a Council representative of the following bodies:—

Advertising Association, Association for Education in Industry and Commerce, Association of Scientific Workers, Association of Teachers in Technical Institutions, Association of Teachers of Domestic Subjects, Association of Technical Institutions, British Association for the Advancement of Science, British Association of Chemists, British Industrial Purchasing Officers' Association, British Science Guild, British Works Management Association, Business Research and Management Association, Central Landowners' Association, College of Technology, Manchester, Electrical Association for Women, Imperial Institute, Incorporated Association of Retail Distributors, Incorporated Sales Managers' Association, Incorporated Secretaries' Association, Industrial Health Research Board, Industrial Transport Association, Industrial Welfare Society, Institute of Chartered Accountants, Institute of Chemistry, Institute of Cost and Works Accountants, Institute of Industrial Administration, Institute of Public Administration, Institution of Civil Engineers, Institution of Engineering Inspection, Institution of Heating and Ventilating Engineers, Institution of Mechanical Engineers, Institution of Municipal and County Engineers, Institution of Production Engineers, Institution of Professional Civil Servants, King's College of Household and Social Science, London Association of Certified Accountants, London and Cambridge Economic Service, London School of Economics and Political Science, Management Research Groups, National Institute of Industrial Psychology, National "Safety First" Association, Office Machinery Users Associa-

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tion, Office Management Association, Royal Agricultural Society of England, Royal Economic Society, Royal Horticultural Society, Royal Society of Arts, Royal Statistical Society, School of Economics and Commerce, Dundee Society of Chemical Industry, Society of Incorporated Accountants & Auditors, Textile Institute, University College, Hull.

Other bodies are being added so as to secure that the Congress is supported by the full weight of industrial economic opinion.

RULES FOR CONTRIBUTORS

1. The length of papers should not exceed three thousand words. Papers should be as brief as possible. The British Organising Committee have the right to reduce or otherwise edit papers which are inconveniently long for reproduction.

2. Papers should be typewritten in double spacing using one side of the paper only and three copies should be provided.

3. All papers will be printed in Great Britain under the supervision of the British Organising Committee and will be available to delegates and members prior to the Congress. Papers should indicate the section and sub-headings under which they are submitted.

Contributors should endeavour to confine their paper to the immediate subject of the heading and avoid the discussion of management in general.

4. Papers may be submitted in the language of any of the countries participating in the Congress and should be accompanied by a summary of contents in not more than fifteen lines (150 words) in the original language and in English. In the case of papers submitted in English a summary in French or German should be added to the English summary.

5. In the case of countries possessing National Committees contributions must be forwarded by and with the approval of such Committees.

6. Papers should be forwarded to the Secretary of the British Organising Committee:

Mr. H. Ward, M.Sc., 21, Tothill Street, LONDON, S.W.1. not later than December 31st, 1934. It cannot be guaranteed that contributions received after this date will appear in the report of the Congress proceedings.

7. Papers shall not contain matter which could be considered as publicity or the expression of political opinion.

8. Papers presented shall not be published elsewhere prior to the Congress.

9. Diagrams—The maximum size of reproductions of photographs, drawings, etc., will be 8½ inches by 11½ inches (210 millimetres by 297 millimeters). Titles should be typewritten and placed on the back of each photograph or drawing.

Photographs should be clear prints suitable for reproduction without re-touching.

Drawings should be made with jet black ink on white paper. Lettering should be in plain block letters. As line drawings are improved by reduction, they should be prepared at about twice the size (linear) of the drawing as it will be printed. Lines should be drawn clearly and sharply and be proportionately heavier to allow for reduction. Unless prepared by a draughtsman, all letters, shading etc., should be drawn lightly in soft lead pencil as a guide to the engraver. If drawings are submitted on sectional or squared paper, only that with faint blue lines should be used. Red, black or other coloured rulings should be avoided.

CHAPTER NOTES

TORONTO

Reported by W. A. McKague, general secretary.

Two of our public service members, Mr. George Appleton of the Toronto Hydro and Mr. E. J. Tucker of Consumers' Gas, aided by Mr. W. McNeill of The Bell Telephone Company and Mr. J. G. Coulthard of the Toronto Transportation Commission, put on a successful "public utility" night at the Toronto meeting on March 21st. Though their descriptions had to be rather condensed, they gave the members a good idea of the accounting problems and practices in their respective fields, and their talks were thoroughly enjoyed. Some of these at least will be printed in Cost and Management.

This was also the annual meeting of the Chapter. Chairman Spence was able to report the membership well maintained, and the Chapter in good shape financially. The directors elected for the ensuing year are:

G. Appleton, Toronto Hydro-electric System; R. S. M. Ausman, Gurney Foundry Co. Ltd.; H. E. Bunt, Lever Bros. Ltd.; E. W. Carpenter, Toronto; C. D. Dean, Imperial Oil Refineries Ltd.; R. W. E. Dilworth, C.A., Clarkson, Gordon, Dilworth & Nash; G. R. M. Dingle, Massey-Harris Co. Ltd.; H. M. Hetherington, Viceroy Mfg. Co. Ltd.; C. D. Landell, Canada Dry Ginger Ale, Ltd.; O. A. LeFrancois, W. D. Beath & Co. Ltd.; C. P. Roberts, C.A., J. P. Langley & Co.; S. H. Sorley, C.A., Thorne, Mulholland, Howson and McPherson; J. W. Spence, Canadian Kodak Co. Ltd.; R. F. Bruce Taylor, C.A., Edwards, Morgan & Co.; C. E. Whitten, Firstbrook Boxes Ltd.

At a directors' meeting which followed, the following officers were elected: Chairman, S. H. Sorley, C.A.; vice-chairman, G. R. M. Dingle; secretary, E. W. Carpenter; treasurer, R. F. Bruce Taylor.

Attendance numbered nearly 60, making it one of Toronto's best meetings of the season.

Arrangements are now being made for the closing dinner to be held in April, at which it is hoped to have a prominent speaker.

CENTRAL ONTARIO

Reported by W. A. McKague, General Secretary

Central Ontario Chapter held one of its best meetings of the season on March 22, in Galt, with Mr. E. W. Carpenter, of Toronto, speaking on "The Economics of Cost Accounting." Members were present from Guelph, Kitchener, Galt and Woodstock, and several visitors accompanied Mr. Odendahl from the latter point. Mr. Carpenter spoke on the value of accurate costs, and the set-up of a system of budgetary control in relation to the costs. His talk will probably appear in Cost and Management.

Chairman Earnshaw has arranged for a meeting to be held in Guelph on April 20, with Mr. S. E. LeBrock, comptroller of the Steel company of Canada, Ltd., to speak on the meaning of certain asset items in the balance sheet. Mr. LeBrock is well known throughout our

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organization as an interesting speaker, which, in conjunction with the efforts of our chairman and other members in Guelph, assures that the closing meeting of the season will be a success. This will also be the annual meeting of the Chapter.

VANCOUVER CHAPTER

Reported by Maurice Willis, Secretary

Mr. J. E. McKee of the International Business Machines Ltd., Toronto, was the speaker at a meeting held in the committee room of the Associated Dairies Ltd. on Tuesday March 13th at 8 p.m.

The speaker showed the use of accounting machines in the present day office as an efficient and quick method of recording the transactions of any business.

After the talk the meeting was opened for a general discussion which was well taken up by many of the members present.

HAMILTON

Reported by R. Dawson, secretary-treasurer.

Hamilton Chapter have enjoyed some very fine meetings recently and the attendances, while scarcely up to the average, have nevertheless been very gratifying in view of strong counter attractions.

On March 7th, K. M. Horton our popular vice-chairman, pinch hitting for Walter Berquist, who was unable to fill his engagement to speak to us, gave a very fine talk on "Process Costs in the Textile Industry." Mr. Horton illustrated his talk with various forms and the paper was complete in every detail. Owing to the fact that our chairman, Harold Wright, was an absentee from the city and our vice-chairman was the speaker, the chair was occupied by the writer, a unique position for him.

On March 24th, which was our annual meeting, Mr. J. J. McHardy, comptroller of the Mercury Mills Ltd, Hamilton, gave a very fine talk on "The Presentation of Reports from an Executive Viewpoint." The speaker was introduced by Alex. Howey, and his talk, which will appear in Cost and Management at a later date, was very much appreciated. The ballot for directors for the 1934-35 season resulted in a heavy vote and the results were close. No less than thirty members in all received votes. Harold Wright, K. M. Horton, R. Dawson, C. W. Berquist and O. H. Menzel were re-elected, while the newcomers to the Board were, A. C. Frazer, A. G. Howey and W. R. Ward.

The directors later met and appointed the following officers: Chairman, K. M. Horton, Cosmos Imperial Mills Ltd.; vice-chairman, A. C. Frazer, Steel Co. of Canada, Ltd.; secretary-treasurer, R. Dawson, The Hoover Co. Ltd.; directors, C. W. Berquist, Hydro Electric System; H. P. Wright, Wright Pounder & Co.; O. H. Menzel, Polymet of Canada Ltd.; A. G. Howey, Mercury Mills Ltd.; M. I. Long, C.A., Clark, Houston & Co.; W. R. Ward, Dominion Natural Gas Co. Ltd.

The closing meeting of the season will be held at the Wentworth Arms Hotel on April 4th, when Mr. J. J. Armstrong of the Bedaux Company will speak on "Labor Measurements Through the Bedaux Method." This is a joint meeting with the St. Catharines Branch

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of the C.G.A. and if it lives up to previous joint meetings between the two kindred bodies, it should be good.

MONTREAL

(From the Montreal Gazette, March 24, 1934)

Two addresses, dealing with "Fraud in Accounts—its Detection and Prevention," and "Factors Contributing to Bankruptcy" were delivered at last night's meeting of the Montreal Chapter of The Canadian Society of Cost Accountants and Industrial Engineers, held in the Arts Building of McGill University. The address on Fraud in Accounts was given by H. W. Blunt, C.A., while the second was given by L. N. Buzzell, C.A. The meeting was an "open forum" and a general discussion followed on the two papers. Donald R. Patton, C.A., chairman of the Montreal Chapter, presided.

Mr. Blunt started off by stating that all fraud requires is the dishonest individual provided with the proper opportunity.

Mr. Blunt went on to consider what constituted fraud in accounts, why it was committed, who committed it and possible remedies. "Fraud in accounts," said the speaker, "is committed for one of two reasons. The first reason is to present a false showing, the second to hide the larceny or embezzlement of cash or other assets.

After dealing with the different types of fraud found in accounts Mr. Blunt suggested several means of preventing them. He ended up by saying that although dishonesty was the exception rather than the rule the best means of promoting honesty was: "Make it as difficult as possible to be dishonest!"

L. N. Buzzell, dealing with "Factors Contributing to Bankruptcy," reviewed the early statutes in England with regard to bankruptcy and then went on to consider the cases of honest and fraudulent bankruptcy. Unavoidable factors were discussed under the heads of drastic decline of assets, competition forcing men out of business, changes in legislation, changes in styles and even the wide fluctuation in foreign exchanges. Avoidable, but not dishonest factors were also discussed, one of which was the granting of too much credit to customers. The original capital structure of a company is often, too, one of the roots of eventual bankruptcy. All these avoidable factors could be traced to bad management, bad judgment and poor personnel.

REFERENCE LITERATURE

RECEIVED IN MARCH

Budgeting, The "How" of. N.A.C.A. Bulletin, March 15.
Budget. The Flexible Budget and Standard Costs in a Business of Moderate Size. N.A.C.A. Bulletin, March 15.
Plating and Japanning Costs, Setting Standards for in a Job-Order Industry. N.A.C.A. Bulletin, March 1.
Electroplating, Direct Material Costs in. N.A.C.A. Bulletin, March 1.
Cost, Codes on. Certified Public Accountant, March.
Canning Industry Accounting Under N.R.A. Certified Public Accountant, March.
Instalment Sales, Increasing Importance of Accounting for. Certified Public Accountant, March 1.
Garage, Bookkeeping System for. The Accountant, March 10.
Incentive Plans and Quality Control, Departmental. Manufacturing and Industrial Engineering, February.
Tin Mines, The Cost Book System of the Cornish. The Cost Accountant, February.
Local Government Authorities, Uniform Costing in. The Cost Accountant, February.

NEW MEMBERS

The following have recently been added to the membership of the Montreal Chapter:
J. I. Bernier, McEwen, Cameron, Limited, Montreal.
J. R. Stephenson, Enamel & Heating Products, Ltd., Sackville, N.B.

THE TREND OF PRODUCTION COSTS

Commodity prices as measured by the Dominion Bureau of Statistics index number, which is based on the year 1926, rose from 70.6 in January to 72.1 in February. The following is a comparison by main groups:

	Feb. 1933	Jan. 1934	Feb. 1934
Foods, beverages and tobacco	58.3	69.1	73.1
Other consumers' goods	76.1	77.6	77.7
All consumers' goods	69.0	74.2	75.9
Producers' equipment	87.2	86.5	87.9
Building & construction materials	74.7	83.3	83.6
Manufacturers' materials	51.6	60.5	61.6
All producers' materials	55.8	64.6	65.6
All producers' goods	58.9	66.8	67.8
All commodities	63.6	70.6	72.1

The principal declines in February were in the following: Fresh fruits, furs, fats, manufactured leather, aluminium, and zinc and its products. The principal advances in February were in: Flour & milled products, vegetables, hides & skins, livestock, meats & poultry, eggs, raw cotton, raw silk, wool yarns, furniture, scrap iron, and asphalt.

